



May 14, 2008

The Honorable Bill Lockyer  
Treasurer, State of California  
915 Capitol Mall, 1st Floor  
Sacramento, California 95814

Dear Treasurer Lockyer:

In recent discussions with Moody's Investors Service, we noted our support for the move towards uniform global ratings and strongly believe that ratings must reflect first and foremost the actual risk of default and non payment of principal and interest across all asset classes of debt. This uniform global ratings system should incorporate the ratings of U.S. municipal, corporate, and global sovereign credits.

States occupy a unique position in the American public finance system. They have a history of timely debt payment, with only very limited exceptions that encompasses not only recent history, but also carrying back throughout the twentieth century. Unlike many other categories of debt, state credits were almost unblemished in the Great Depression. That record of payment is matched by very few global governmental entities. As such, in any effort directed at creating a uniform global rating system, states including California represent the top benchmark against which to base any system.

Although we support a single uniform debt rating system and the conclusion that a general underrating of municipal credit quality is reflected in the rating system of all three rating agencies, we have expressed certain reservations to Moody's regarding their current single page rating conversion chart and the basis upon which some of the categories of ratings have been developed. Those differences however do not temper our conclusion on the premier position enjoyed by states and many local governments.

In general, we believe that municipal investors should be offered the ability to compare the municipal bonds on the same rating scale as the current global ratings assigned bond insurers. In part, this understating of municipal ratings has led to demands for bond insurance on the part of retail investors and the payment of unneeded premiums by municipal borrowers.

Finally, we believe that investors have ample opportunity to demand ratings from multiple credit rating agencies, and as such a single rating scale should be the goal of each rating agency to avoid further investor confusion.

Please feel free to contact me if we can be of further assistance to you in this effort.

Warm regards,

A handwritten signature in grey ink that reads "Robert Muller". The signature is written in a cursive, flowing style.

Robert Muller

*Managing Director  
Head of Investor Relations*

Cc: Gail Sussman, Moody's Investors Service